

## CABINET

25 January 2011

### REPORT OF THE CABINET MEMBER FOR REGENERATION

<b>Title:</b> Barking Enterprise Centre: Tender for Management	<b>For Decision</b>
<p><b>Summary:</b></p> <p>A revised Barking Enterprise Centre proposal has secured planning approval and work started on site this month, with completion expected by October. This report sets out the proposals to tender for the management arrangements of the Centre including the Borough's business start-up / business support service. This project will form the centrepiece of the Borough's enterprise and business support programme for the coming few years and is therefore essential in addressing private sector/employment growth in the borough over the coming years.</p> <p><b>Wards Affected:</b> The Centre lies within Abbey Ward although the service provided covers the whole Borough.</p>	
<p><b>Recommendation(s)</b></p> <p>The Cabinet is recommended:</p> <ul style="list-style-type: none"><li>(i) In accordance with the Constitution (Contract Rules 3.6), to authorise tendering for the Barking Enterprise Centre management through the Accelerated OJEU Restricted Procurement Procedure.</li><li>(ii) In accordance with Contract Rule 3.6.4, to confirm whether it wishes to be further informed or consulted on the progress of the procurement and/or award of the proposed contract, or if it is content for the Corporate Director of Finance and Resources to monitor progress of the procurement, and to award the contract upon conclusion of the procurement process.</li></ul>	
<p><b>Reason(s)</b></p> <p>Barking Enterprise Centre forms a key part of the strategy to support business start-ups and business growth in order to generate employment and make the borough the place to do businesses.</p>	
<p><b>Comments of the Chief Financial Officer</b></p> <p>The capital cost of building the two business centres is £5.5 million, (as shown in the current capital programme), of which approx £3.0m is for the Barking centre, and this is wholly funded through external LEGI funding.</p> <p>In terms of revenue implications, there are two main elements to the contract: facilities management; and the re-provision of the start up / business support service currently at Longbridge Road. Both elements will be carried out by the same contractor.</p>	

In respect of facilities management, the successful contractor will be awarded a one-off sum off £100,000 to cover their revenue costs before any rental income from occupants is received. After this point, the contractor will receive their fee purely from the rental income. The contractor will bear the risk and reward of respectively low and high occupancy levels at the Centre – and there will be no further subsidies from or returns to the Authority. However, the Authority will still be exposed to risk to the extent that the contractor defaults on the contract (i.e. if occupancy levels are too low to operate) and, therefore, will have to step in to provide the service until another contractor is appointed. The rent charged will be an ‘all-inclusive’ fee, covering all bills, apart from NNDR which will be dealt with on a separate / individual basis as some occupants may be exempt. As part of the tender process, each contractor will submit a business model, setting out all their costs, proposed levels of service, rent charges, and their overall required level of income. The tender evaluation process will therefore involve assessments of the viability, risk, value, and effectiveness of each business plan and the extent to which the objectives of the Business Centre will be achieved; thus ensuring occupants are provided with an efficient and effective service, whilst also ensuring the longevity of the contractor.

In respect of re-providing the start-up / business support service, the contractor will be awarded £127,000 for the first six months of service (which will fall in the last six months of 20011/12). After six months, the contract payments will reduce down to £200,000 per annum (from the pro rata rate of £254,000 per annum). Rather than bid on price for a required level of outputs / contract specifications, tenders will demonstrate what service / outputs they will deliver for a given / limited contract value. It is also a condition that funding for the start-up / business support service is wholly used for this purpose and is not used to fund the facilities management element of the service. Re-providing the start-up / business support service from the current Longbridge Road site, is also expected to bring a financial saving of £25,000 through not paying the lease on that site, which will now be re-organised to pay for the above services.

All the above revenue costs will be funded from existing Regeneration and Economic Development “LEGI” budgets, (currently used on the Small Business Centre). The total budget for 2011-12 will be £227,000 (£100,000 for facilities management, and £127,000 for the last six months of the year for the business start up service). In 2012-13 onwards the annual contract will be £200,000. The contract is for three years, with the ability to extend beyond that.

#### **Comments of the Legal Partner**

1. Further to recent Cabinet approval (at its 16 March 2010 meeting) of appointment of a contractor to undertake design and build works in respect of a new Barking Business Centre to be located on part of the former Lintons Estate, now known as the William Street Quarter, this report is now seeking Cabinet’s authority to tender a contract for the provision of Facilities Management and Business Start-up / Business Support services at the Centre.
2. It is proposed that the Council will provide the successful contractor with some start-up funding from the Local Enterprise Growth Initiative (LEGI) budgets, but it is anticipated that a substantial proportion of the contractor’s costs / fees will be derived from rental income from letting the Centre’s units, and from funding independently sourced by the successful contractor.
3. As the value of the contract is likely to exceed the EU threshold for services

(currently £156,442), the Council has a legal obligation to comply with the provisions of the Public Contracts Regulations (the EU Regulations) in procuring the contract.

4. Furthermore, the Council's Contract Rules (Contract Rule 3.6) require the strategy for the procurement of contracts of above £400,000 in value to be submitted to Cabinet for approval prior to procurement of such contracts.
5. The proposed strategy for procurement as set out in Paragraph 5.2 of the report is use of the accelerated restricted procedure.
6. The justification provided for the use of this procedure is set out in paragraph 5.4.
7. The proposed procurement strategy set out in of the report complies with the EU Regulations.
8. In accordance with Contract Rule 3.6.4, the report is additionally requesting that Cabinet confirm whether it wishes to be further informed or consulted on the progress of the procurement and / or award of the proposed contract, or if it is content for the Corporate Director of Finance and Resources to monitor progress of the procurement, and to award the contract upon conclusion of the procurement process. Contract Rule 13.3 provides delegated authority to the commissioning Chief Officer, in consultation with the Chief Financial Officer (Section 151 Officer), to award contracts upon conclusion of the procurement process where the value of a contract is in excess of £50,000.

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## 1. Background

- 1.1 The Cabinet on the 16 March 2010 approved the procurement of a design and build contractor for the Barking Business Centre which will be located on part of the former Lintons Estate now known as the William Street Quarter. Following a procurement process McLaren were appointed and commenced on site this month with completion by October 2011.
- 1.2 Whilst Barking Business Centre has always been the working name, as there is already an industrial estate of the same name on Thames Road there will be a need for a new name to be agreed – in the interim Barking Enterprise Centre is being used however it is suggested a naming competition could be held to raise awareness of the building and generate occupier interest.

- 1.3 Now there is clarity on the contents of the Enterprise Centre in terms of physical space and facilities, it is appropriate to start the tender process in relation to the centre management. This report concerns a tender process to appoint an organisation who would run the Centre carrying out facilities management, managing the letting of the 50 individual office units and providing the start-up / business support service open to all business start-ups and small and medium sized enterprises (SMEs) in the borough. The latter service is currently being run by Barking and Dagenham Small Business Centre (BDSBC) from a Longbridge Road shop front / office. Their service would continue at Longbridge Road until the end of September 2011 so there is no gap in provision for entrepreneurs.
- 1.4 As set out in the Local Growth White Paper, the Government is increasingly talking about the importance of SMEs and business start-ups in delivering private sector growth yet funding for intensive support is not being identified. It is hoped that the Centre will act as a focus for SME and start-up support and be able to bid for any future funding streams for business support. This is a model which has worked successful elsewhere. The Centre will effectively become a one stop shop for business support and is also likely to accommodate the Chamber of Commerce.
- 1.5 The capital funding to build the business centre was provided through the previous government's Local Enterprise Growth Initiative (LEGI), which included funding for two business centres in the borough. The Dagenham Business Centre (on part of the Frizlands Depot site) has started construction and will be managed by GLE Property Developments Ltd as individual high quality workshop units whilst the Barking Centre will be office units with on-site support.
- 1.6 The LEGI funding was designed to achieve a step change in enterprise activity with any surplus income from the enterprise centre funding business support - the original capital thereby generating an on-going revenue stream. The original scheme for the Barking Centre which had secured planning approval was for a 30,000 sq ft centre with a residential tower above which would be developed by the Local Housing Company (LHC). When both the scheme and the LHC proposal were no longer viable due to the credit crunch, private housing market crash and withdrawal of housing grant, a revised scheme was designed for just the LEGI funding available. The current scheme is only one third of the size of the original, therefore, any income source for business support is significantly reduced.
- 1.7 Subject to securing further capital funding, there is scope to extend the business centre in the future. Therefore, it is proposed no long-term arrangements are entered into which hinder the Council's flexibility.

## **2. Proposal**

- 2.1 The Tender would consist of two elements set out below:

### **A) Facilities Management**

- 2.2 The Council will to retain freehold ownership of the business centre and seek a company to run the Centre including the following key activities:
- Marketing and letting of the individual office units.
  - Day-to-day liaison with tenants.

- Reception duties / management of post/booking of Training/counselling rooms
- Management of IT / telephone facilities.
- Cleaning of all non-lettable office space areas.
- Enabling businesses to access the Centre 24 hours a day ensuring a secure environment.
- Maintenance of external rear courtyard area
- All transactions - billing, invoicing, rent and service charges. Tenants should have a simple 'all-inclusive' license and have 'easy-in, easy-out' terms. It is envisaged no more than a months notice is required although if arrangements are made whereby there is a rent free period then restrictions could be applied.
- Running of 'virtual' office accommodation
- Ensuring the building complies with all Health and Safety requirements
- Implementation of Green Travel Plan requirements.
- Submission of open book accounts

2.3 It would be proposed that the service is appointed for a three year period but with scope to extend.

2.4 Occupation Restrictions: In terms of occupation it is not proposed to set any requirements for specific sectors or ages of businesses however the size of units and the support services available would clearly suit new and start-up businesses. Restrictions will be put on size of units with no firm occupying more than 50sqm to ensure the Centre operates to support a significant number of businesses. Training / college occupiers would not be permitted as they would detract from the business environment.

2.5 Rents / Service Charge: Occupiers would be charged an 'all-inclusive' fee covering rent, service charges and all costs. It is not intending that the Council puts any cap on charges with the assumption that charges will be set to maximise occupation of the Centre with the highest return possible. Numerous studies have shown that subsidised rents do not encourage business to survive long-term - it is the flexibility and convenience of the Centre that best serves new start up businesses.

2.6 Regular monitoring obligations will be applied and the operator would be required to retain and update an Occupiers Board.

2.7 The tender will set out the requirements and ask operators to set out their financial model including their operating costs, profit level and the amount able to be put into business support. The tender will set out how risk of lettings lies with the operator not the Council. An open book approach would be required.

## **B) The Start-up/Business Support Service**

2.8 As part of the LEGI programme, a business start-up/business support service has been running in the borough for a number of years based in a retail premises on Longbridge Road. The service has been run by East London Small Business Centre known as Barking and Dagenham Small Business Centre (BDSBC). This has had significant success with hundreds of business starts ups. There is a clear referral network in the borough where anyone expressing interest in starting a business (for example at Job Centre Plus interviews) are referred to the BDSBC for support recognising that enterprise is an important means out of worklessness.

- 2.9 Having a location where entrepreneurs can drop in and get advice and support is recognised as essential to supporting start ups and Barking and Dagenham now has one of the highest rates of business start ups in the UK.
- 2.10 Rather than fund the Small Business Centre to operate from Longbridge Road it is proposed that the service will run from the Enterprise Centre which has been designed to include the facilities and space needed – namely a management office with reception desk, counselling rooms for one to one business counselling, a training room suitable for the range of business start up courses available – including up to 30 entrepreneurs utilising laptops.
- 2.11 The tender will require operators to set out the outputs they would achieve in terms of business start ups, enterprise training courses, business counselling sessions, people out of unemployment into work etc. All these would relate only to residents / businesses within the Borough.

### **3. Financial Issues**

- 3.1 **Capital.** The capital cost of the construction of the building is fully funded through the LEGI funding. An Agreed Maximum Price (AMP) has been finalised. This covers everything other than non-fixed furniture. In most centres individual businesses purchase their own furniture whilst there is additional capital funding available for furniture for the communal areas and training room.
- 3.2 **Revenue.** The tender will set out that £100,000 revenue funding is available to support revenue costs such as marketing and employment of staff prior to any rental income being achieved. It is recognised that the Centre will take a while to reach full occupation – indeed full occupation is considered to be about 90% given the likely turnover of businesses. Tenders will need to set out how this funding will be utilised and include it in their financial appraisals.
- 3.3 The tender will set out that £127,000 is available for the first six months of operation for funding the business start-up/business support service with tenderers required to set out the service they would provide for that funding.
- 3.4 Given funding uncertainty about any surplus income from occupation rents and from ongoing Council funding, it is proposed that the tender allows for a sliding scale of support provision / outputs annually depending on resources available but with a base core service of £200,000 per annum. The tender will also require proposals for drawing in additional funding.
- 3.5 No revenue funding for business start-up/business support will be able to be used to subsidise the FM element – any shortfall due to low rental income will be the operator's risk.

### **4. Legal Implications**

- 4.1 The legal implications are set out above in the Comments of the Legal Partner.

## 5. Other Implications

- 5.1 **Risk Management.** As part of the tender responses bidders will be required to include their own Risk Register. A Risk Register for the Capital Project is regularly updated.
- 5.2 **Contractual Issues.** The tender would be applicable for an OJEU procurement process given the values involved.
- 5.3 Tenders will be expected to complete a detailed financial appraisal for both elements as well as providing a clear outputs schedule.
- 5.3 The initial Pre-Qualification Questionnaire (PQQ) stage will ensure that any company / organisation asked to tender addresses basic requirements in terms of financial standing, equal opportunities etc. In relation to tender submissions, the tender assessment will be based on an overall split of 50/50 price/quality. The 50% for the price covers the whole analysis of the financial appraisal looking at the robustness of the figures for each element rather than solely the headline surplus figure. The 50% for the quality covers the quantum and quality of the economic outputs / outcomes to be achieved and the quality of the management proposals. The assessment will also take into account any added benefits the bidders can bring which are in line with the vision for the Centre and business support in the borough.
- 5.4 It is proposed the Accelerated OJEU Restricted Procurement Procedure is used to ensure that the operator is 1) in place early enough to ensure the marketing of the Centre is carried out to maximise occupation from when the Centre opens and 2) enabling the operator to input into the final finishes of the centre, the details of the broadband / telephone systems, security measures, signage and other details that it would be important for the management to be engaged in.
- 5.5 **Customer Impact.** The PQQ stage will require bidders to set out their Equality and Diversity policies whilst the tender stage will require submission of how the management arrangements will ensure the service provided meets both statutory requirements and best practice in relation to equal opportunities including equality of access.

## 6 Property / Asset Issues

- 6.1 The freehold of the building will remain with the Council and the facilities management / maintenance of the building will be an obligation on the selected tenderer.

## 7. Options appraisal

- 7.1 Alternative options such as whether the Council carries out the FM function were considered but it was recognised that specialist skills in letting managed workspace were needed and the role is outside current capabilities. Whilst Elevate could carry out such functions it was felt that an open procurement process would ensure the Council achieves best value.

7.2 It was also considered that the FM element could be tendered separately from the business support function to maximise opportunities for better value however on reflection it was felt that splitting the functions could lead to difficulties if disputes arose between the FM manager and the business start-up service and that a single operator would offer economies of scale in terms of staffing. Only the full package will enable clear comparisons to be made between tenders. In addition, there is no reason however why a FM company could not tender as a consortium with a business support provider.

**8. Background Papers Used in the Preparation of the Report:**

Cabinet Minute 147, 16 March 2010: Barking Business Centre – Appointment of Contractor

**9. List of appendices:**

None